

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 AGR-20 DRC-01 /155 W

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R 230355Z AUG 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4101

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PASS TREASURY FOR BENNETT AND COOPER

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: JAPANESE VIEWS ON GENTLEMEN'S AGREEMENT ON EXPORT CREDITS

1. FOLLOWING IS SUMMARY OF DISCUSSIONS HELD BY DYCHE WITH MOF (SAGAMI), MITI (KISHIDA), JAPAN EXIM BANK (HIYASHI) AND, AT THEIR INITIATIVE MINISTRY FOREIGN AFFAIRS (OYAKE).

2. INTEREST RATE: MITI INSISTENT ON 7 PERCENT. MOF THINKS THAT ACCOMMODATION ON GOJ DESIRE FOR NATURAL RESOURCE DEVELOPMENT EXEMPTION WOULD OPEN UP ROOM FOR NEGOTIATION. JAPAN EXIMBANK DEFERRED TO MOF AND MITI ON INTEREST RATE BUT CONVEYS VERY SUBTLE IMPRESSION THAT A HIGHER RATE WOULD NOT REPEAT NOT BOTHER THEM. FOREIGN AFFAIRS INTERESTED IN SUCCESSFUL AGREEMENT AND SUGGESTED 7 1/2 RATE AS A COMPROMISE. MOF INDICATED HONEST BROKER ROLE ON INTEREST RATE CITING PROBLEMS SUCH AS AN 8 PERCENT MINIMUM EXPORT CREDIT RATE WOULD APPEAR DISCRIMINATORY AS SOME DOMESTIC CREDITS THROUGH GOJ ARE AT LOWER INTEREST RATES, THE NEED TO FINANCE RESOURCE DEVELOPMENT ABROAD, ETC. DYCHE IMPRESSION IS THAT GOJ IS PREPARED TO GO TO 7 1/2 MINIMUM RATE. IF EC AGREES TO

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8 PERCENT GOJ WILL HAVE A PROBLEM AND WOULD TRY TO DELAY

AGREEMENT.

3. LENGTH OF CREDIT AND EXEMPTIONS: 8 1/2 AND 10 YEARS NO REPEAT NO PROBLEM FOR GOJ. IT STILL LIKES 5 YEARS FOR INDUSTRIAL COUNTRIES. EXEMPTION FOR RESOURCE DEVELOPMENT PROJECTS VIEWED AS CRITICAL. JAPANESE OBSESSION WITH ABSOLUTE DEPENDENCE ON IMPORTED RAW MATERIALS PLUS VARIOUS PROGRAMS AUTHORIZED BY DIET FOR SUCH DEVELOPMENTS GIVE THIS ASPECT CONSIDERABLE DOMESTIC POLITICAL IMPORTANCE. THIS IS AS OR MORE IMPORTANT THAN INTEREST RATE. GOJ VERY INTERESTED IN "LARGE SCALE" EXEMPTIONS IDEA AS THIS MIGHT MEET THEIR REQUIREMENTS AS A SINGLE EXEMPTION BUT THEIR VIEWS ON INTEREST RATE FOR SUCH AN EXEMPTION OBVIOUSLY DIFFERENT THAN OURS SINCE NOW LENDING AT LESS THAN 6 1/2 PERCENT FOR SUCH PROJECTS.

4. LOCAL COST FINANCING: NO REPEAT NO PROBLEM WITH OUR VIEWS, I.E. STANDSTILL WITH PRESENT EC AND U.S. FORMULAS WITH CONTINUING NEGOTIATIONS IN OECD.

5. MIXED CREDITS: GOJ WILLING TO CONSIDER WAY TO ENABLE OTHERS TO MATCH MIXED CREDITS BY SOME KIND OF NOTIFICATION PROCEDURE, OR OTHER WAYS MIXED CREDITS COULD BE TREATED TO PREVENT LOOPHOLE IN GENTLEMEN'S AGREEMENT, ALTHOUGH UNWILLING TO ELIMINATE MIXED CREDITS ALTOGETHER.

6. LEASING: NO REPEAT NO PROBLEM WITH OUR VIEWS.

7. DEFINITION OF LDC: GOJ DOUBTS DEFINITION CAN BE REACHED AT NEXT MEETING AND BASICALLY PREFERS TO LET DAC PROVIDE DEFINITION. NO REPEAT NO SPECIAL PROBLEMS WITH PARTICULAR COUNTRIES WERE INDICATED. HODGSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, MEETINGS, GOVERNMENT MINISTRIES, EXPORT CREDIT GUARANTEES, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO10949
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740232-0985
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740821/aaaaarik.tel
Line Count: 93
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 31 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31 JUL 2002 by kelleyw0>; APPROVED <04 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAPANESE VIEWS ON GENTLEMEN'S AGREEMENT ON EXPORT CREDITS
TAGS: EFIN, JA, US, EEC, (DYCHE)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005